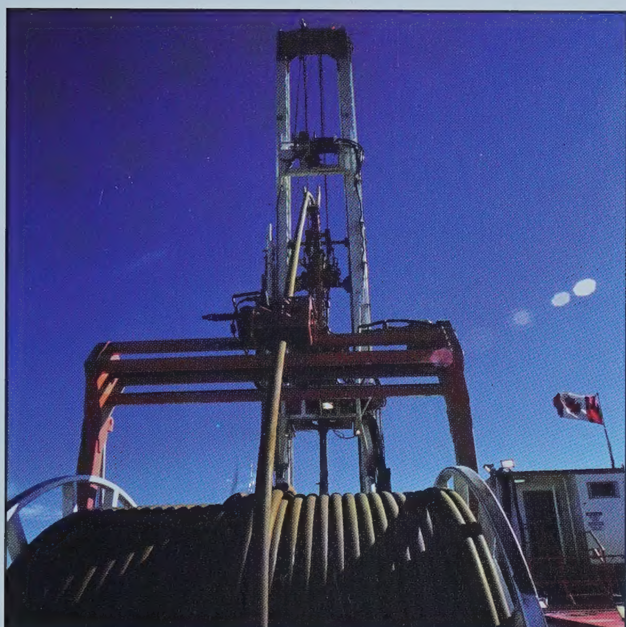
FOREMOST

FOREMOST INCOME FUND 2005 Annual Report



Focused Growth

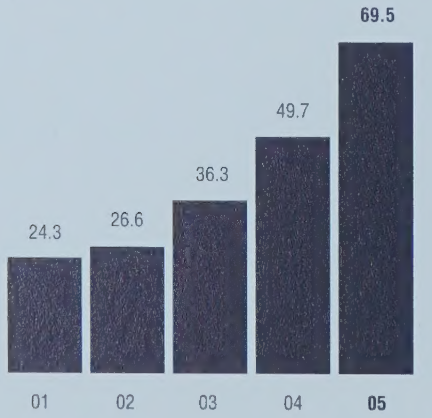
Corporate Profile

Foremost Income Fund (the "Fund"), is a mutual fund trust that is publicly traded on the Toronto Stock Exchange ("TSX") – under the trading symbol FMO.UN. The Fund is an income trust that holds complementary manufacturing businesses that are recognized leaders in their respective fields. Through its separate business models, the Fund's operating entities design, manufacture and sell: drilling equipment, off-road vehicles, oil treating systems, pressure vessels, petroleum storage tanks, gas separation and steam generator equipment.

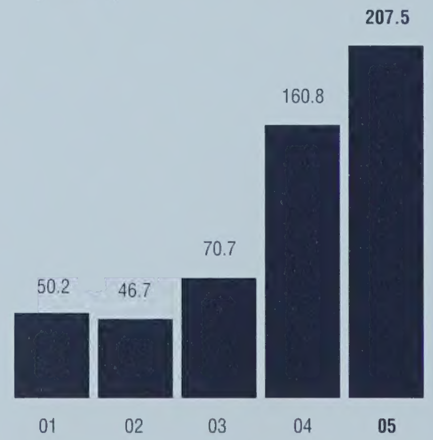
FINANCIAL HIGHLIGHTS

For the years ended December 31,	2005	2004
Revenue	**$ 207,504,000**	$ 160,752,000
Net income	**$ 27,979,000**	$ 20,296,000
Per Trust Unit	**$ 1.49**	$ 1.09
Cash flow from operations	**$ 30,860,000**	$ 22,412,000
Per Trust Unit	**$ 1.63**	$ 1.20
Property, plant and equipment expenditures	**$ 2,548,000**	$ 1,912,000
Working capital	**$ 29,583,000**	$ 17,995,000
Total assets	**$ 140,531,000**	$ 108,040,000
Unitholders' equity	**$ 69,516,000**	$ 49,715,000

UNITHOLDERS' EQUITY
($ millions)



REVENUE
($ millions)



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Letter to Unitholders

In 2005, the underlying businesses of the Fund grew substantially, both organically and through acquisitions. There is currently considerable backlog in place for Foremost's productive capacity; in some cases, the entire coming year is booked.

Distributable cash, generated from operations, at $10.8 million for the fourth quarter, was our best yet. Our current budget expectations for 2006 are, on average, in line with that same magnitude of performance.

Maintaining the conservative approach established in prior years, in 2005 we distributed well less than half (37%) of the distributable cash generated by the Fund. The funds retained were used to finance the third quarter Peace Land and De-In acquisitions, and to strengthen our working capital position.

One result of the Fund's reorganization, completed in December 2005, is that we now have internal tax accounts which will allow the Fund to retain some portion of its taxable income, without having to allocate all of this income to Unitholders. It is therefore no longer as relatively advantageous for Unitholders to be in tax sheltered accounts. In the same vein, the Trustees are proposing to regularly pay out a higher percentage of our distributable cash. It is hoped these two changes will make the units more attractive to a broader range of investors, while still allowing for the retention of tax sheltered earnings to finance growth.

Foremost intends to continue to pursue acquisitions that fit with our strengths.

We look forward to a prosperous 2006.

On behalf of the Trustees

James T. Grenon, Trustee
March 2006

NODWELL 240 WITH EXCAVATOR USED FOR PIPELINE REPAIRS IN MUSKEG TERRAIN.

The Fund's growth continued in 2005 with consolidated revenues reaching a new record of $207.5 million, up 29% from 2004's level of $160.8 million. As in 2004, oilfield industry activity was the driver of the growth and through strategic acquisitions, product development and strong customer relationships, we were able to capitalize on the increased demand for our services.

The Fund comprises two significant operating entities, Foremost Industries LP ("Foremost") and Foremost Universal LP ("Universal").

The majority (98%) of the growth was from Universal which grew from $98.0 million in 2004 to $143.9 million in 2005. Universal, which manufactures separation and storage vessels for the oil and gas industry, has seven facilities located throughout Western Canada. Full year contribution from the 2004 acquisition of Corlac Industries and five months of contribution from the third quarter 2005 acquisition of two Grande Prairie area manufacturers accounted for $21.6 million of the growth. The balance of the increase resulted from the combination of facility expansion and increased market share of specific products at Universal's other facilities.

Foremost, a Calgary based manufacturer of heavy equipment for the oil and gas, construction and waterwell industry, saw revenue grow marginally from 2004's level of $62.7 million to $63.6 million. Demand for our custom line of coil tubing drill and dual rotary rigs remained high but shop constraints have resulted in a backlog well into 2006.

UNIVERSAL OPERATIONS

Universal consists of six business units: Universal Industries, Stettler Oil & Gas, Corlac, Wilco, Peace Land and De-In. The third quarter 2005 acquisition of the latter two companies increased our total manufacturing shop space to over 300,000 square feet. Management, accounting, engineering, estimating and sales staff are located in Universal Industries' facilities in Lloydminster, Alberta and provide services to the other business units as required. Products are allocated to be built at each location to best fit the different shop configurations, labor skills, and capacity.

During 2005 we optimized the sales, estimating and job allocation process amongst the group of companies and successfully converted Universal's ERP system to the same platform as Corlac. This has enabled us to streamline our purchasing, warehousing, inventory and accounting process. Further work is planned for 2006 to maximize the synergies between the remaining entities.

UNIVERSAL REVENUES (*After Eliminations*)
($MM)

	2005	2004
Universal	**59.6**	48.7
Stettler Oil & Gas	**42.4**	29.8
Corlac	**18.9**	13.6 (1)
De-In	**9.6 (2)**	–
Peace Land	**6.8 (3)**	–
Wilco	**6.6**	5.9
Total	**143.9**	98.0

Notes: (1) 6 months
(2) 5 months
(3) 5.5 months

Labor shortage and the resulting wage escalation worsened from a location and trade specific issue in 2004 to having a significant problem in all locations and all positions in 2005. With wage increases, job progression, shift options, recruiting techniques and performance bonuses we were still only able to maintain our employee / contractor numbers. Although we are able to pass the majority of the increased costs back to our customers, the loss of

TRAILER MOUNTED COIL TUBING DRILLING RIG.

productivity due to reduced experience is significant and if manpower could be added, additional product could be sold. This problem has continued into 2006 and we are currently evaluating foreign labor as a means to increase our workforce.

UNIVERSAL INDUSTRIES

Total revenues for 2005 were up 22% from 2004 to $59.6 million. In addition to that significant accomplishment, we successfully negotiated a new three year contract with the Union and passed the provincially recognized Certificate of Recognition (COR) for safety performance. The latter is required to work for an ever growing number of major oil companies and can result in up to a 50% reduction in Workers Compensation premiums. Universal has four main product groups:

Shop Tanks – Fluid Storage

This product is manufactured at Universal Industries' facility and shipped as a completed product to customer sites throughout western Canada. Tanks are limited to 24 feet in diameter to comply with transportation regulations. Revenues in 2005 grew 15% from 2004's level of $20.5 million to $23.6 million. Shop tank capacity is 100% utilized with labor being the limiting factor. Through pro-active sales we have standing orders for up to 30 tanks with five major oil producers. In aggregate these contracts amount to 60% of our total capacity and permit us to optimize the shop and labor schedules with a guaranteed margin and stable workload. From the customer's perspective, they have guaranteed supply at a controlled price that is not totally subjective to material and labor cost spikes.

Field Tanks – Fluid Storage

Revenues for 2005 were $24.5 million, up $7.3 million (42%) from 2004 and $19.5 million (390%) from 2003. Universal's strategic initiative to get into this market has realized excellent results to date and currently we have a backlog well into 2007. We successfully implemented steel and labor escalators into our contracts that enable us to maintain our margins despite dramatically increasing costs.

Vessels – De-oiling / De-watering / Steam Generation

Vessel revenue for 2005 was down 6% from 2004's level of $8.6 million to $8.1 million. This decrease is entirely due to an increase in the number of gas separators we supplied to Stettler for which we do not recognize the revenue. In mid year we completed the shop fabrication component of the four steam generators we built for the Nexen Long Lake SAGD project. We met both our margin and schedule expectations on these prototypes and at year end have several quotes out for consideration.

Service

This product group consists of machining, parts, rental and mobile equipment (hauling, craneage) services. 2005 revenue was $3.4 million compared to $2.6 million in 2004.

STETTLER

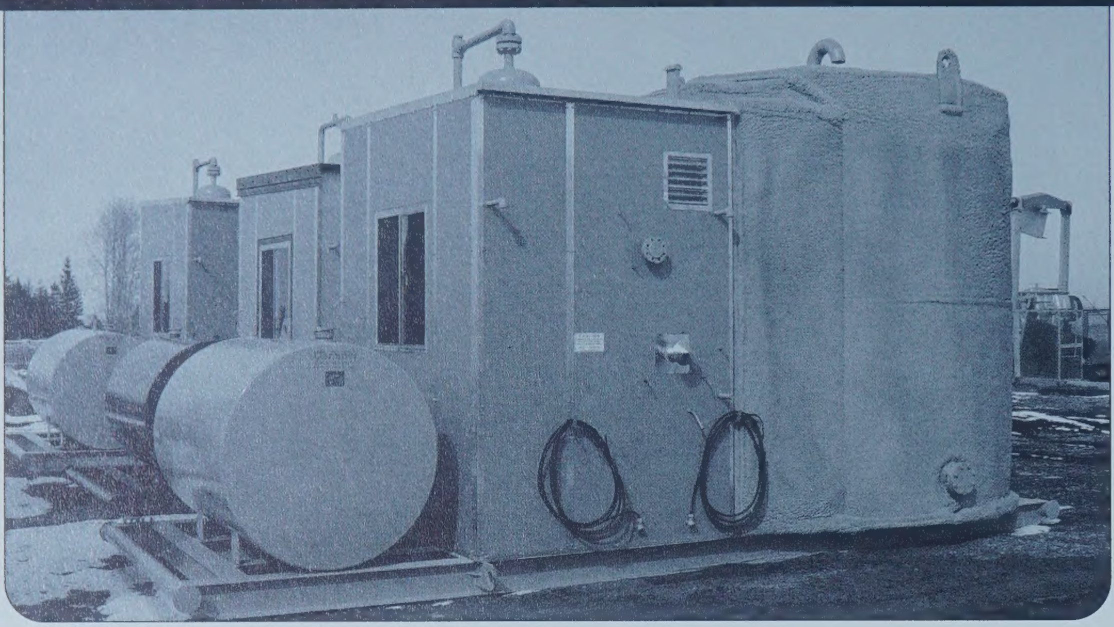
Annual revenues for 2005 grew 42% from $29.8 million in 2004 to $42.4 million. Increased demand from Universal's core customers as a result of high natural gas prices was the main driver. We added 3,000 square feet of floor space and leased another 4,000 square feet to increase capacity.

WILCO

Wilco is a shop tank manufacturing facility located in Neilburg, Saskatchewan (80 km southeast of Lloydminster). 2005 revenues were $6.6 million compared to $5.9 million in 2004.

CORLAC

Corlac was acquired in July 2004 to provide additional shop tank capacity and to gain access to two unique products they manufactured. 2005 revenues increased from $13.6 million in 2004 to $18.9 million. This number is not reflective of the real productivity as it does not include $12.7 million of product that was sold internally to Stettler. As 100% of the shop capacity was utilized for shop tanks we did not realize any appreciative gain in vessel or compressor sales from Corlac.



COMBINATION SKID: GAS SEPARATOR AND DOUBLE WALL 100 BARREL STORAGE TANK WHICH IS THE MAIN PRODUCT FOR STETTLER.

PEACE LAND / DE-IN

Peace Land Fabricating is a shop tank producer located in Hythe, Alberta (60 km west of Grande Prairie). De-In Industries produces a similar product and is located in Debolt, Alberta (60 km east of Grande Prairie). Together the two companies have 50,000 square feet of manufacturing capacity and approximately 90 employees. Their principal product is 400 Bbl tanks which are sold to companies who rent them to oil and gas producers.

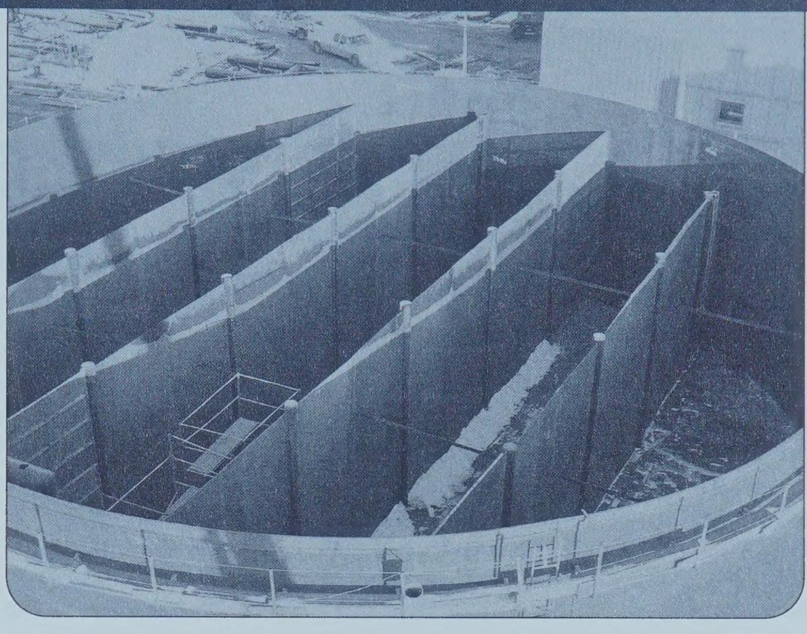
Universal wanted to expand into this key geographic area which serves the oil and gas production fields of northwest Alberta, northeast British Columbia and the Northwest Territories. Both companies were acquired in the third quarter of 2005 and have met our revenue expectations with Peace Land contributing $6.8 million in 5.5 months and De-In adding $9.6 million in 5.0 months. We have already introduced traditional 750 and 1000 Bbl shop tanks into their facility and sold the product to local producers. In 2006 we plan to begin manufacturing and selling gas separation equipment to further increase their revenues.

FOREMOST OPERATIONS

Foremost has four distinct product groups which are evaluated independently to ensure we are responding to changing market conditions and maintaining profitability. Individual product group activity can fluctuate dramatically from year to year necessitating a re-allocation of resources (staff, shop space, capital) between groups. The independent nature of the products and their target markets provide diversification to the Fund because overall performance is not dependent on any one product. Historically, we have found that at least two of the four product groups are active at all times.

OILFIELD

Revenues from Coil Tubing Drill Rigs (CTR) were down from 2004's level of $25.2 million to $17.1 million. We delivered eight units compared to fourteen in 2004 as our largest customer achieved their planned fleet size early in the year. In March we signed a contract with Nabors Drilling to provide them with 20 CTR's to be delivered over a 20 month period. Two were released prior to the end of the year and the balance will be finished in 2006. In addition to the decline in revenue, we experienced a significant reduction in margin in this product in 2005 due to over-runs associated with a four unit order for a prototype design. Although we were disappointed in the financial results from this design, the product has performed very well and the customer is currently looking at purchasing two additional rigs.



FIELD STORAGE TANK UNDER CONSTRUCTION

	2005	2004	2003	2002	2001
Revenue	**$ 207,504,000**	$ 160,752,000	$ 70,679,000	$ 46,690,000	$ 50,163,000
Net income	**27,979,000**	20,296,000	6,619,000	5,868,000	8,553,000

Revenues from the Explorer III rig designed in 2004 for shallow oil sands and coal bed methane wells were $6.1 million compared to $4.6 million last year. Foremost delivered five units during the year with similar margin results to the CTR prototype. Through design and manufacturing refinements we have been able to get these margins up to a satisfactory level.

DRILLS

Dual Rotary

Sales for these drills were $15.1 million from twenty units compared to $8.6 million from twelve units in 2004. This variance is typical from year to year and is a function of construction activity, drought conditions and the relative strength of the Canadian dollar. We expect sales in 2006 to be similar to 2004 for these reasons.

Mineral Exploration

In 2005 we sold twelve units for $2.5 million versus five units for $3.6 million last year. 2004 revenues were all from the larger and more costly drills used in the hard rock mining industry. Eight of the 2005 drills are low unit cost equipment manufactured in our Indianapolis facility and used in the geotechnical industry. This is the first time in five years we have produced capital equipment at Indianapolis and we are encouraged by the activity.

ANCILLARY EQUIPMENT

This segment is comprised of the following products: Parts Sales, Service, Tooling and Pipe, and Rental. In aggregate sales for 2005 were $21.1 million, up $4.2 million (25%) from 2004. The most significant increase occurred in the Tooling and Pipe category which benefited from a strong demand of Foremost's proprietary reverse circulation pipe used in the mining industry.

VEHICLES

Vehicle revenues were $1.8 million from two units compared to $3.8 million from four units in 2004. This product line is very unpredictable but has high margin and high volume potential every one in five years.

The Management's Discussion and Analysis of Foremost Income Fund (formerly Foremost Industries Income Fund) and hereinafter referred to as (the "Fund") should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the accompanying notes to consolidated financial statements contained in this annual report. This analysis has been prepared taking into consideration information available to March 23, 2006.

The report contains certain forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in our forward-looking statements.

OVERVIEW

Foremost Income Fund (the "Fund") is an unincorporated, open-ended unit trust established by a Deed of Trust under the laws of the Province of Alberta dated November 12, 2005. The Fund was created to effect a reorganization resulting in the indirect acquisition of the operations of Foremost Industries Income Fund.

On December 28, 2005, pursuant to both regulatory and Foremost Industries Income Fund Unitholder approval, the reorganization was completed whereby the Fund acquired all of the existing assets and business operations of the Foremost Industries Income Fund and its subsidiary entities. The reorganization resulted in the Unitholder of the Foremost Industries Income Fund exchanging their units for units in the Foremost Income Fund on a one-for-one basis.

The Fund continues to conduct its business through two limited partnerships, Foremost Industries LP ("Foremost") and Foremost Universal LP ("Universal").

On July 15, 2005, the Fund, through Universal, acquired all of the issued and outstanding shares of the shop tank manufacturer Peace Land Fabricating and Supply Ltd. ("Peace Land"). On August 3, 2005 the Fund also acquired all of the issued and outstanding shares of the shop tank manufacturer De-In Industries Ltd. ("De-In"). On July 1 2004, the Fund, through Universal, purchased the assets and business operations of Corlac Industries (1998) Ltd. ("Corlac"). The consolidated financial statements for 2005 and 2004 include the results of operations of these acquired businesses from their effective dates.

The Fund derives its operational income from both Foremost and Universal. Foremost has two business units, its Canadian based manufacturing of custom equipment used for the oil and gas, construction and waterwell industries; and Mobile Drilling Company Inc. ("Mobile"), a U.S. based entity which manufactures and sells parts for the geotechnical industry. Universal's overall business is focused on the oil and gas industry and contains the business units of Universal Industries, Corlac, Stettler, Wilco, Peace Land and De-In.

With its headquarters in Calgary, the Fund's combined business employs approximately 850 personnel throughout its operations, which are predominantly based in western Canada. The Fund trades its trust units on the Toronto Stock Exchange under the symbol "FMO.UN".

OUTLOOK FOR 2006

Given the current climate within the oil and gas sector, the upcoming fiscal period looks to be one of further growth relative to 2005. Sales orders for many of the business units are in advance of where they were just one year ago. In addition, capital investments undertaken to expand capacity at both the Foremost and Universal business units are expected to generate increased revenues in the second half of 2006. Concerns regarding the impact on revenue opportunities due to shortages in the availability of the necessary skilled labour resources remain. The acquisition of Peace Land and De-In during 2005 has also provided additional growth opportunities for Universal with respect to revenues and manufacturing capacity.

From an operations perspective, the Fund will continue to implement its integration of individual business units. Internally within its operations, opportunities for the standardization of its infrastructures, specifically within the administration, information and accounting systems, will continue to be pursued. Identification and implementation of operational improvements will remain a core philosophy.

Lastly, the Fund continues to seek out other properly priced business acquisition opportunities as part of its accretive growth strategy.

RESULTS OF OPERATIONS

Consolidated year to date revenue for 2005 was $207.5 million, a 29% increase from the $160.8 million generated in 2004. Consolidated 2005 net income was $27.9 million, compared to $20.3 million provided last year. Earnings per trust unit increased from $1.09 in 2004 to $1.49 for the current year. After taking into account the 3:1 trust unit split in June 2005, quarterly cash distributions were increased from $0.125 to $0.15 ($0.60 annually) per trust unit effective June 2005. These increases resulted in year to date 2005 cash distributions of $0.575 per trust unit or $10.8 million in aggregate. 2004 cash distributions amounted to $0.45 per trust unit or $8.4 million in total.

REVENUE AND CONTRIBUTION MARGIN

FOREMOST

Revenues

Foremost provided revenues of $63.6 million compared to $62.7 million a year ago. The marginal increase is a combination of product mix and the facilities continued operations at full capacity. Specifically, Foremost's product lines and details of their results are presented below.

Oilfield - Revenue $23.1 million
($29.8 million in 2004)
The number of Coiled Tubing Drill Rig (CTR) units completed in 2005 totalled eight as compared to fourteen last year. Six units delivered represented the completion of a major customer's fleet plan early in the year. In March 2005, an additional order for 20 units over a twenty month period was received and two units were delivered during the year with the balance to be delivered in 2006.

Revenues from the Explorer III rig increased from $4.6 million last year to $6.1 million this year. Introduced in 2004, this rig was designed for the shallow oil sands and coal bed methane drilling programs.

Drills - Revenue $17.6 million
($12.2 million in 2004)
This category includes revenue derived from the Dual Rotary ("DR"), geotechnical and mineral exploration drilling rigs. DR sales for the year increased to $15.1 million (twenty units) from $8.6 million (twelve units) mainly due to improvements in the U.S. markets. Geotechnical and mineral exploration rig sales activity was $2.5 million, down from $3.6 million in 2004 and reflects changes in market demand. Significant year over year revenue variances are typical for this product category, impacted by construction activity, drought conditions and the relative strength of the Canadian dollar. Current expectations for 2006 are similar to 2004 activity and revenue levels.

Parts and Service - Revenue $10.1 million
($9.5 million in 2004)
Parts and service revenues generally correlate to the number of rigs that are working in the industry. Since most of the rigs produced by Foremost are working, the revenues increase is expected. U.S. part sales generated by Mobile were $4.5 million as compared to $4.3 million in 2004.

Tooling and Pipe - Revenue $9.8 million
($6.6 million in 2004)
Tooling and pipe revenues are mainly derived from the mineral exploration industry. The mineral exploration industry has seen a continued resurgence over the year, resulting in this year's revenue increase.

Vehicles – Revenue $1.8 million
($3.8 million in 2004)
Revenues for 2005 consisted of two new vehicles, represented by one Chieftain C and one Commander. Product line revenues remain highly unpredictable due to the cyclical demands of this niche market.

Rental – Revenue $1.2 million
($0.9 million in 2004)
Foremost's rental income remains consistent with its long-term operating agreement with a large oil sand consortium in northern Alberta. This rental equipment fleet consists of several all-terrain vehicles.

Contribution Margin
The contribution margin percentage for 2005 was 20.5 percent or $13.0 million, a decrease from the 27.7 percent margin, $14.1 million, experienced in 2004. Overall, margins reported on the income statement will vary from year to year based upon the specific blend of products sold in a particular year. Although Foremost is generally recognized as a custom capital equipment manufacturer, it will periodically receive orders for multiple units. Contribution margins for 2005 were negatively impacted by two events. During the first two quarters, there were $0.6 million of unbudgeted manufacturing costs related to a newly designed conventional drilling rig. As well, production, engineering and third party supplier issues related to the production of CTR rigs during the second and third quarter resulted in the achievement of half of anticipated margins. These issues have been subsequently addressed by management through specific improvement in procedures and practices with 2006 contribution margin percentages expected to return to the 2004 level. Supporting this belief, the fourth quarter contribution margin was 24.1%, as compared to 22.1% for the first three quarters.

UNIVERSAL

Revenues
Universal's consolidated revenue, which includes the Universal Industries, Stettler, Wilco, Corlac, Peace Land (5.5 months) and De-In (5 months) operations for 2005 was $143.9 million. This represents an increase of $45.9 million from last year's revenues of $98.0 million. This increase is attributable to the acquisition of Peace Land and De-In early in the third quarter as well as the full year impact of the 2004 Corlac acquisition. The balance of the increase resulted from the combination of facility expansion and increased market share of specific products at Universal's other facilities.

Universal's product groups can be segregated into four main lines; shop tanks, gas separators, field tanks and vessels.

Shop Tanks - Revenue $65.0 million
($35.4 million in 2004)
In 2005, shop tank revenues were provided by Universal Industries, Wilco, Corlac, Peace Land and De-In. This product line represented the most significant revenue increase in 2004. It was also the largest revenue generator of Universal comprising approximately 40 percent of its total revenue.

Gas Separation - Revenue $42.4 million
($29.8 million in 2004)
This revenue, derived from the sale of well-site gas separation equipment, is generated solely from the Stettler business unit. It is expected that these revenues will continue to increase in 2006 as a result of the additional production facilities becoming fully operational.

Field Tanks - Revenue $24.5 million
($17.4 million in 2004)
This product segment, mainly generated by Universal Industries, increased significantly during the year principally from determined efforts to focus on this previously under-serviced market. The success of these efforts is evidenced by the current backlog of orders with delivery dates into 2007.

Vessels - Revenue $8.5 million
($12.0 million in 2004)
Vessels, used for oil treating equipment, are largely produced by Universal Industries and Corlac. The decline in revenues over 2004 reflect the increase in vessels supplied to a related party which are eliminated for reporting purposes and normal year to year variance.

Parts, Service and Rentals - Revenue $3.5 million
($3.8 million in 2004)
These miscellaneous revenues are comprised from all the business units of Universal and can include various forms of servicing to customers' well sites and over-the-counter part sales.

Contribution Margin
Contribution margins during the year amounted to $33.8 million compared to $18.1 million in 2004. The increase arises from both revenue growth and improved contribution margins as a percentage of revenues. Combining the strength of the oil and gas economy with economies of scale production within Universal's different but integrated businesses, the contribution margin increased from 18.5 to 23.5 percent.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses totalled $15.0 million for the year compared to $12.2 million for 2004. Included in these overhead figures are the overheads for Peace Land and De-In for the last half of 2005. Also, the 2005 figures include a full year of Corlac's overheads as compared to 2004's results where Corlac's overheads were in place for the last half of 2004. While overhead increased in terms of absolute numbers as a percentage of revenue, overhead amounted to 7.2 percent of revenue in 2005, a decline over the 7.6 percent in 2004. The 2005 figures also include bonuses, which are based upon financial performance, of $1.6 million compared to $1.2 million in 2004. Moreover, certain overhead additions were approved during the year to meet the increased activity levels.

Foremost's overhead expenses for the year amounted to $7.2 million compared to $6.7 million in 2004. The increase from 2004 is attributed to inflationary adjustments, one time reorganization costs and additional expenditures which are related to elevated activity levels.

Universal's overhead was approximately $7.8 million as compared to $5.5 million in 2004 and increased during the year mainly from the full year inclusion of Corlac and the mid-year acquisitions of Peace Land and De-In. Overall, and in comparison with other similar companies, Universal's overhead in relation to the $143.9 million of revenue generated during the year is well below the industry norm.

INTEREST EXPENSE AND DEBT

Interest expense, net of interest revenue, for 2005 was $1.2 million compared to net interest expense of $0.8 million in 2004. This increase is attributable to the acquisition of Peace Land and De-In, which were entirely financed through the Fund's operating line and the increase in interest rates during 2005. As well, the increased revenue activity causes a greater reliance on the operating line to finance the Fund's working capital requirements in order to build up the inventory levels and bridge the difference between receivables and payables.

AMORTIZATION

Amortization, at $2.6 million for 2005 is higher than the $2.1 million in 2004. Universal accounted for $1.9 million of amortization compared to $1.4 million for 2004. This increase is largely as a result of the capital and intangible assets acquired in the Peace Land and De-In transactions and a full year of amortization from the Corlac business unit. Foremost's amortization was $0.7 million for 2005 compared to $0.7 million for 2004. Approximately one-half of Foremost's amortization is attributable to its rental assets.

FOREIGN EXCHANGE LOSS

The foreign exchange gain of $51,000 for the year compares to a loss of $262,000 in 2004 is attributed to managed conversions of U.S. dollar balances to Canadian dollar balances during the year. Foremost generally holds, at any time, a net U.S. working capital position wherein monetary assets denominated in U.S. dollars normally exceed liabilities in U.S. dollars. Foreign exchange gains or losses will occur in a year experiencing significant Canadian to U.S. dollar exchange volatility as was seen during both 2005 and 2004.

INCOME TAXES

Pursuant to the Declaration of Trust, all Canadian taxable income is distributed to Unitholders and consequently there is no Canadian tax liability for the Fund. Foremost, through its U.S. subsidiary has significant U.S. non-capital loss carryforwards. No tax benefits have been recorded for these losses, as their utilization is uncertain. The 2005 acquisitions of wholly-owned subsidiaries Peace Land and De-In through Universal resulted in the recognition of a future income tax liability of $0.49 million. During 2005, the Canadian tax authorities completed their audit with no material adjustments arising from the audit.

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

The Fund generated cash flow from operations of $30.9 million in 2005 compared with $22.4 million in 2004. The cash flow was used to provide $10.8 million in cash distributions to Unitholders as compared to $8.4 million in 2004, allow for the $5.6 million acquisition of Peace Land and De-In, reduce bank operating loans by $0.4 million, and allow for capital and intangible asset additions of $2.7 million. In addition, cash flow was used for the overall net increase in the non-cash working capital components including accounts receivable, inventory, accounts payable and customer deposits. These changes occurred as a result of the increased revenue and manufacturing activity over the course of the year.

Net working capital as at December 31, 2005 was $29.6 million compared to $18.0 million a year earlier. The Fund's working capital and debt to equity ratios remain strong at the end of 2005. The working capital ratio was 1.42:1 at the end of 2005 compared to 1.31:1 a year prior. The debt to equity ratio decreased from 1.17:1 in 2004 to 1.02:1. Both of these ratios were favourably impacted by the cash flow generated from operations. Book value per trust unit has increased from $2.66 in 2004 to $3.67 at the end of 2005.

CASH LIQUIDITY AND KEY FINANCIAL RATIOS

(000s for stated values, except per trust unit amounts and trust units outstanding)

As at December 31,		2005		2004		2003
Working capital ratio						
Current assets	$	**100,100**	$	76,320	$	33,898
Current liabilities		**70,517**		58,325		19,628
Working capital	$	**29,583**	$	17,995	$	14,270
Ratio		**1.42:1**		1.31:1		1.73:1
Debt to equity ratio						
Total debt	$	**71,015**	$	58,325	$	21,928
Unitholders' equity	$	**69,516**	$	49,715	$	36,293
Ratio		**1.02:1**		1.17:1		0.60:1
Book value per unit						
Unitholders' equity	$	**69,516**	$	49,715	$	36,293
Trust units outstanding		**18,916,438**		18,657,390		18,480,690
Book value per trust unit	$	**3.67**	$	2.66	$	1.96
Selected Annual Information						
Revenue	$	**207,504**	$	160,752	$	70,679
Net income	$	**27,979**	$	20,296	$	6,619
Net income per trust unit, basic	$	**1.49**	$	1.09	$	0.39
Net income per trust unit, diluted	$	**1.45**	$	1.05	$	0.39
Cash flow per trust unit	$	**1.63**	$	1.20	$	0.48
Total assets	$	**140,531**	$	108,040	$	58,221
Total liabilities	$	**71,015**	$	58,325	$	21,928
Cash distributions	$	**10,813**	$	8,381	$	4,533
Cash distributions per trust unit	$	**0.57**	$	0.45	$	0.27

DISTRIBUTABLE CASH

(000s for stated values, except per trust unit amounts)

Years ended December 31,		2005		2004
Net income	$	**27,979**	$	20,296
Amortization		**2,649**		2,105
		30,628		22,401
Less: sustaining capital expenditures		**1,400**		1,100
Distributable cash	$	**29,228**	$	21,301
Cash distributions paid	$	**10,813**	$	8,381
Distributable cash flow per trust unit	$	**1.55**	$	1.14
Actual cash distribution paid per trust unit	$	**0.57**	$	0.45

Distributable cash and cash flow per trust unit are not defined terms under Canadian generally accepted accounting principles.

Distributable cash is determined as net income for the period, with amortization, which is a non-cash expense added back. An estimate of normalized sustaining capital expenditures is then deducted.

Management believes that distributable cash is a useful supplemental measure of performance as it is used by other income funds. It provides investors with an indication of the amount of cash the business has generated during that period which could be available for distribution to Unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

In the case of the Fund, the level of distributions is set periodically with no direct relationship to the distributable cash during the period.

INVENTORY

Inventory at the end of 2005 is $49.5 million compared to $41.9 million in 2004. Of this total, Foremost's year end inventory totalled $18.1 million compared to $14.5 million at the end of 2004. Universal's 2005 year end inventory was $31.4 million, an increase from $4.0 million over $27.4 million last year. These increasing inventory levels are justified by the increased levels of activity and the greater number of businesses included in the consolidated financial statements when compared to last year. Of the $49.5 million, approximately $24.9 and $18.9 million comprised raw material and work in progress respectively. This is compared to $20.7 and $17.0 million respectively last year. Customer contract deposits, which are in effect ongoing progress payments made by customers totalled $21.9 million compared to $12.0 million last year. Although these amounts are directly associated to the Fund's inventory levels they are reflected as current liabilities within the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of land, buildings, equipment and rental assets. The 2005 increase reflects the Fund's purchase of Peace Land and De-In property, plant and equipment of $4.3 million and the remainder for capacity expansion and maintenance of operational capacity. During 2005, the Fund initiated capital expansion programs in both Foremost and Universal to meet current expectations for increased market demand. The majority of these programs should be completed by the end of 2006.

INTANGIBLE ASSETS

Intangible assets consist of patent and licensing rights and payments pursuant to a non-compete agreement. In particular, the Fund acquired the patent rights for an inclined separator technology which included an initial outlay of $0.8 million and subsequent contingent purchase price adjustments of $0.3 million. There is a potential additional contingent purchase price adjustment of up to $0.9 million over the remaining three year term, dependent upon the revenues earned from this specific product line. The Fund also wrote-off the remaining unamortized cost of its licensing rights for the hydrocyclone technology designed for the oil and gas industry. Included in intangible assets is the cost of the ten year non-compete agreement with the significant shareholder of Corlac. These costs continue to be amortized over the useful life of the agreement.

GOODWILL

Goodwill was derived as a result of the prior year purchases of the business operations of Universal Industries, Wilco and Stettler. Current year acquisitions of Peace Land and De-In resulted in additional goodwill of $0.3 million and $3.0 million respectively. In addition, and as part of the Peace Land, De-In and Stettler acquisitions the Fund has a contingent purchase price adjustment liability for up to a five year period. This liability is based on the earnings of each particular business unit. In 2005, a total payment of $1.1 million was made with respect to these agreements. Calculations will be made annually over the remaining term of each agreement and these amounts will be charged to goodwill in each respective year.

UNITHOLDERS' EQUITY

During the year, Unitholders' Equity increased to $69.5 million from the prior year's balance of $49.7 million. The increase arose primarily as a result of the Fund's earnings in the amount of $ 27.9 million. Quarterly distributions at the end of March, June, September and December, reduced equity by $10.8 million. Overall, the net increase to Unitholders' Equity in 2005 was $19.9 million or a 40.0 percent increase from the 13.4 million in 2004. In 2005, other than the effect of net income and cash distributions, another significant change resulted from the issuance of $2.3 million of Trust Units for the asset and business acquisition of De-In. The 2005 year end balance of Unitholders' Equity is impressive when measured against the Fund's total assets. This reflects an equity-to-asset percentage of 49.5 percent. The total debt to equity ratio is 1.02:1. The Fund has no long-term debt and a healthy level of working capital. The Peace Land and De-In acquisitions were largely financed through the Fund's operating loans. The reason was to continue to utilize the Fund's strong financial position while limiting the dilution of existing Unitholders through the issuance of Trust Units.

CREDIT FACILITIES

The Fund has an available credit facility with a chartered bank. This facility provides for two operating lines of up to a maximum of $50.0 million. Under the terms of this facility, the Fund is also permitted to make use of banker's acceptances to borrow at effective interest rates which are usually lower than those charged under the bank's lines of credit. These operating lines of credit are limited by financial covenants, including margin ratios for acceptable accounts receivable and inventory, debt service ratios and working capital requirements. At the end of 2005, the Fund had $23.0 million of banker's acceptances applied against these operating lines compared to $23.8 million at the end of 2004. The Fund has centralized its banking facilities, and the consolidated cash balance reflects the group's overall net cash position.

CRITICAL ACCOUNTING POLICIES

The Fund's significant accounting policies and estimates are shown in Note 2 within the Notes to Consolidated Financial Statements.

The Fund regularly reviews its property, plant and equipment. If impairment in value exists, it is calculated by taking the difference of the lower fair market value and the higher book carrying amount, which is then charged to current earnings. The Fund cannot predict when such events occur, nor can it estimate the effect on the carrying

value of these assets. Rather, the Fund conducts reviews of these assets when economic or environmental changes occur that may affect the valuation of the assets.

Foreign currency translation is recognized as it occurs. In the normal course of business, the Fund does not speculate on future foreign currency exchange rates. The majority of foreign exchange is with the U.S. dollar and operating results are prone to be influenced by rapid changes in these exchange rates within a given year.

CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates shown below require management's judgment as to the effect of future events that are inherently uncertain. Management is required to make estimates and judgments that affect reported amounts within the consolidated financial statements and the related disclosure of contingencies. These estimates and judgments are based upon historical experience and various other assumptions that are believed to be reasonable in these circumstances. These estimates are evaluated on a regular basis and revised as updated information becomes available. It should be noted that actual results may differ from these estimates under different assumptions or conditions. Management believes that the following accounting estimates are significant and merits additional disclosure.

Revenue Recognition

The Fund uses the percentage of completion method in determining revenue recognition for capital equipment fabrication. At each month end the Fund systematically reviews every job in progress and determines the appropriate revenue and related costs to be reflected in the income statement using, among other measurement criteria, cost information to date, anticipated margins, progress status estimates and estimated costs to complete. These estimates are constantly evaluated to ensure their application properly reflects the month-end revenue and cost valuations. At the completion of each project a post mortem review is conducted to identify reasons for actual costs being different than original contract estimates the results of which are used to provide better information in evaluating ongoing projects.

Inventory Obsolescence

Inventory obsolescence, for the most part in Foremost, is calculated on a product by product basis of which the latest activity of a given item is used in the determination of the aging of the individual product. This last date of activity is then compared to a table of discount factors, which is based upon management's opinion of how much discount should be applied. This opinion is based upon past experiences of inventory movement trends and for the most part is a good indicator of future probabilities.

Warranty Provisions

Warranty provisions are based upon a standard allocation for each capital equipment unit produced. These estimates are based upon historical data for similar types of capital equipment. In the case of capital equipment products that have not been previously manufactured, management estimates and extrapolates warranty liabilities based upon the closest historical models and will use its judgment to consider additional factors.

Allowance for Doubtful Accounts

Given the cyclical nature of the oil and gas sector and the rapid manner in which these changes can occur the Fund consistently monitors customer payment progress on outstanding accounts. The Fund regularly reviews the allowance for doubtful accounts to ensure that the balance is a fair and reasonable assessment of those accounts receivable which may not be collected. The Fund has been able to determine the customer payment issues encountered to date have been adequately provided for in the allowance estimate.

ACCOUNTING CHANGE

Effective January 1, 2004 Foremost formalized a change in its accounting policy for revenue recognition. The purpose of this change was to ensure the consistent application of revenue recognition for all of the operating entities within the Fund. It is management's opinion that the percentage of completion method more accurately reflects the proper timing of revenue recognition and ensures that revenue for capital equipment sales is now uniformly recognized throughout the Fund's business units.

RELATED PARTY TRANSACTIONS

The services of a company owned and managed by a trustee were utilized by the Fund through 2005. Specific functions performed included legal, due diligence, business valuation and other professional services, as related to the business acquisitions as were completed in 2005 and 2004. A total of $1.4 million was accrued or paid for these services in 2005, compared to $1.1 million in 2004. Amounts paid were not more than what could be expected from unrelated parties. Legal and professional services will continue to be required in the future and will be paid on a monthly basis to this related party. Due diligence and business valuation services will also be utilized in the future if the need arises. Any such costs will be capitalized as part of the overall consideration for the acquired business. During 2005, $0.4 million of acquisition costs were incurred and capitalized with respect to the Peace Land and De-In acquisitions. All remaining costs were expensed. During 2004, $0.3 million of acquisition costs were capitalized with the remaining costs expensed.

OBLIGATIONS AND COMMITMENTS

Other than as noted throughout this analysis there are no other material obligations and commitments that are required to be acted upon by the Fund. Further, the Fund has operating lease commitments for a limited number of office and service equipment, none of which individually or in aggregate are material in scope.

CONTROLS

Effectiveness of disclosure controls and procedures

Management has established and maintained disclosure controls and procedures for the Fund in order to provide reasonable assurance that material information relating to the Fund is made known to management in a timely manner and that information required to be disclosed by the Fund is reported within the time periods prescribed by applicable securities legislation. Management has evaluated the effectiveness of the Fund's disclosure controls and procedures, as at the date of this annual report, and as a result of that review, the Fund's certifying offices believe them to be effective in providing such reasonable assurance.

SUMMARY OF QUARTERLY INFORMATION (unaudited)

(000s for stated values, except per trust unit amounts)

2005		**Q1**		**Q2**		**Q3**		**Q4**		**Total**
Revenue	**$**	**41,959**	**$**	**46,131**	**$**	**51,816**	**$**	**67,598**	**$**	**207,504**
Net income	**$**	**4,507**	**$**	**6,406**	**$**	**6,813**	**$**	**10,253**	**$**	**27,979**
Per trust unit, basic	**$**	**0.24**	**$**	**0.34**	**$**	**0.36**	**$**	**0.55**	**$**	**1.49**
Per trust unit, diluted	**$**	**0.23**	**$**	**0.33**	**$**	**0.35**	**$**	**0.54**	**$**	**1.45**

2004		Q1		Q2		Q3		Q4		Total
Revenue	$	30,723	$	34,491	$	40,138	$	55,400	$	160,752
Net income	$	3,816	$	6,209	$	5,130	$	5,141	$	20,296
Per trust unit, basic	$	0.21	$	0.33	$	0.27	$	0.28	$	1.09
Per trust unit, diluted	$	0.20	$	0.32	$	0.26	$	0.27	$	1.05

This following analysis compares the fourth quarter of 2005 to the fourth quarter of 2004.

DISCUSSION OF FOURTH QUARTER RESULTS (unaudited)

(000s for stated values, except per trust unit amounts and trust units outstanding)

Quarter ended December 31		**2005**		2004
Revenue	**$**	**67,598**	$	55,400
Cost of sales		**51,688**		45,712
		15,910		9,688
Selling, general and administrative		**4,946**		3,636
Interest		**236**		363
Amortization		**636**		546
Foreign exchange (gain) loss		**(226)**		120
		5,592		4,665
Income from operations		**10,318**		5,023
Gain (loss) on disposal of property, plant and equipment		**(65)**		118
Net income	**$**	**10,253**	$	5,141
Net income per trust unit, basic	**$**	**0.55**	$	0.28
Net income per trust unit, diluted	**$**	**0.53**	$	0.27
Total number of trust units		**18,916,438**		18,657,390
Average number of trust units for the year		**18,773,763**		18,612,375

FOREMOST

Revenues for the fourth quarter of 2005 were $19.9 million compared to $19.3 million for the same period in 2004. The marginal increase is primarily a result of differences in products mix in combination with the facilities continuing to operate at full capacity.

The contribution margin for the quarter was at $4.8 million compared to $4.6 million last year. The fourth quarter margins were 24.1 percent of revenues as compared to 23.8 percent last year. These margins are consistent with the current product mix.

Overhead expenses were $3.0 million for the quarter as compared to $1.8 million from the same period last year. The majority of the increase arises from reorganization expenses incurred in the fourth quarter with the remainder arising from general increases in operating costs.

Interest income for the quarter amounted to $0.1 million compared to net interest income of $0.1 million of the fourth quarter last year.

Amortization at $0.1 million for the quarter was similar to the $0.1 million from the same period one year ago.

Foremost provided the Fund with a fourth quarter net income of $2.1 million, compared to $2.8 million for the fourth quarter last year. The decline relative to last year is a direct result of the Fund's fourth quarter re-organization.

UNIVERSAL

Fourth quarter 2005 revenues amounted to $47.7 million compared to the $36.1 million generated during the fourth quarter of 2004. The fourth quarter revenue increase from last year can be attributed to the 2005 third quarter acquisitions of Peace Land and De-In, the full year impact of the 2004 Corlac acquisition and to the overall business growth which is directly attributable to the vibrant oil and gas economy.

Universal's contribution margin for the fourth quarter amounted to $11.1 million compared to $5.1 million last year. The contribution margin percentage of the current year's fourth quarter amounted to 23.3 percent compared to 14.2 percent in the fourth quarter of 2004. This improvement reflects the initiatives to manage the issues of weather and unanticipated secondary steel, welding and labor costs that impacted last year's fourth quarter results.

Universal's overhead, comprised of selling, general and administration costs, amounted to $2.1 million for the quarter compared to $1.9 for the fourth quarter of 2004. These overheads have marginally increased over the last year due to the acquisitions and inevitable revenue growth. Overhead, as a percentage of revenue has decreased because of the relative stability of these costs, as their costs are not entirely linked with revenues.

Amortization expense for the fourth quarter 2004 totalled $0.6 million compared to $0.4 million last year. The capital assets purchased within the Peace Land and De-In acquisitions and the full year impact of the Corlac acquisition are the reasons for the increase.

Interest expense for the quarter amounted to $0.2 million compared to $0.6 million for last year. This decrease is a result of two factors. First, the application of undistributed cash directly against the operating line of credit. Second, the use of Banker's acceptances with effective rates lower than the current floating interest rates incurred with the operating loans.

During the fourth quarter of 2005, Universal disposed of certain assets and wrote off the hydroclone license resulting in a loss of $0.1 million as compared to last years gain of $0.1 million.

Universal provided the Fund with net income for the fourth quarter of $8.1 million compared to $2.3 million for the fourth quarter last year.

RISKS AND UNCERTAINTIES

A portion of the Fund's operational business is conducted in foreign markets with the currency typically expressed in U.S. dollars. This includes not only product sales, but also the purchase of a substantial portion of the components required to manufacture those products sold. This heavy dependence on U.S. currency for both sales and purchasing lend exposure to some risks related to currency fluctuations. Contribution margins are influenced by fluctuations in exchange rates. A permanent strengthening of the Canadian dollar versus U.S. currency would result in a decline in the margins enjoyed on U.S. dollar denominated sales.

A portion of revenue is earned from foreign customers susceptible to political and economic risks. These risks are mitigated for larger contracts with contractual credit terms that require a considerable cash deposit and/or letter of credit to guarantee payment of contract amounts. Additionally, in some cases, the Export Development Corporation ("EDC") is utilized to insure foreign contracts and receivables. However, if a situation requires reliance on EDC coverage, collection can be postponed significantly and may be less than the total contract price.

Products are also sold into industries that can experience extreme economic cycles. A portion of revenues are affected by these large historical economic fluctuations such as in both the energy and mining sectors. New, specialized products are developed from time to time that have inherent risks that include:

1. Technical risk that either the product does not perform as desired or that there are unacceptable reliability issues that may render the new product un-merchantable.
2. Supplier risk that components, engines, and other modules procured from third party vendors, that are used in the assembly of products, do not perform in an acceptable manner thereby having an adverse impact on product reliability.
3. Commercial risk that cost over-runs result in the product being a financial drain. The Fund has undertaken a program, driven by a management committee, to review and evaluate all new product development, with the objective that the Fund only undertake projects where the risk/reward trade-off is acceptable. Since adopting this program in 2000, these risks have been managed very effectively and no financial losses on these projects have been experienced.
4. Environmental risk is regularly assessed to ensure that environmental issues do not materially affect the Fund's financial condition or its performance.

CAUTIONARY STATEMENT

Certain statements within this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements use words such as "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this report. These forward-looking statements involve a number of risks and uncertainties, including: the impact of general economic conditions, industry conditions, changes in laws and regulations, increased competition, fluctuations in commodity prices and foreign exchange and interest rates and stock market volatility. The Fund is not undertaking to update any forward-looking statements.

MANAGEMENT'S REPORT

To the Unitholders of Foremost Income Fund

The consolidated financial statements of Foremost Income Fund and other financial information included in this annual report have been prepared by Management. It is Management's responsibility to ensure that sound judgment, appropriate accounting principles and methods, and reasonable estimates have been used in the preparation of this information. They also ensure that all information presented is consistent.

Management is also responsible for developing internal controls over the financial reporting process. The internal control system includes an internal audit function and an established business conduct policy. Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of the financial reports. Management also believes that the Fund's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Committee, which consists of non-management Trustees, reviews the financial statements and annual report, and recommends them to the Board for approval. The Committee meets with Management and external auditors to discuss internal controls, auditing matters and financial reporting issues. External auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Unitholders.

Pat W. Breen, President
Foremost Income Fund

March 23, 2006
Calgary, Alberta

AUDITORS' REPORT

To the Unitholders of Foremost Income Fund

We have audited the consolidated balance sheets of Foremost Income Fund as at December 31, 2005 and 2004 and the consolidated statements of income and unitholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants

March 23, 2006
Calgary, Alberta

Consolidated Balance Sheets

Years ended December 31,	Notes	2005	2004
Assets			
Current assets			
Accounts receivable		$ 50,627,000	$ 34,425,000
Inventories	5	49,473,000	41,895,000
		100,100,000	76,320,000
Property, plant and equipment	6	28,589,000	24,324,000
Intangible assets	7	1,623,000	1,587,000
Goodwill	8	10,219,000	5,809,000
		$ 140,531,000	$ 108,040,000
Liabilities and Unitholders' Equity			
Current liabilities			
Bank indebtedness	9	$ 20,398,000	$ 21,070,000
Accounts payable and accrued liabilities		28,140,000	25,255,000
Customer contract deposits		21,979,000	12,000,000
		70,517,000	58,325,000
Future income taxes	12	498,000	–
		71,015,000	58,325,000
Unitholders' equity	10	69,516,000	49,715,000
		$ 140,531,000	$ 108,040,000

Commitments and contingencies (notes 13 and 19)

See accompanying notes to consolidated financial statements.

Approved by the Board of Trustees

James T. Grenon, Trustee

Roy H. Allen, Trustee

Years ended December 31,	Notes	2005	2004
Revenue		$ 207,504,000	$ 160,752,000
Cost of sales		160,642,000	125,248,000
		46,862,000	35,504,000
Selling, general and administrative		15,045,000	12,191,000
Interest		1,204,000	755,000
Amortization		2,649,000	2,105,000
Foreign exchange (gain) loss		(51,000)	262,000
		18,847,000	15,313,000
Income from operations		28,015,000	20,191,000
Gain (loss) on disposal of property, plant and equipment		(36,000)	105,000
Net income		27,979,000	20,296,000
Change in Unitholders' equity	10	(8,178,000)	(6,874,000)
Unitholders' equity, beginning of year		49,715,000	36,293,000
Unitholders' equity, end of year		$ 69,516,000	$ 49,715,000
Earnings per trust unit	11		
Basic		$ 1.49	$ 1.09
Diluted		$ 1.45	$ 1.05

See accompanying notes to consolidated financial statements.

Years ended December 31,	Notes	2005	2004
Cash flows provided by (used in):			
Operations:			
Net income		$ 27,979,000	$ 20,296,000
Items not involving cash:			
Amortization		2,649,000	2,105,000
Loss (gain) on disposal of property, plant and equipment		36,000	(105,000)
Trust Units based compensation		196,000	116,000
		30,860,000	22,412,000
Change in non-cash working capital	14	(10,125,000)	(15,525,000)
		20,735,000	6,887,000
Investments:			
Purchase of property, plant and equipment		(2,548,000)	(1,912,000)
Purchase of intangible assets		(184,000)	(558,000)
Proceeds from sale of property, plant and equipment		64,000	119,000
Business acquisitions, net of cash acquired	4	(5,577,000)	(14,994,000)
Increase in goodwill	8	(1,100,000)	(384,000)
		(9,345,000)	(17,729,000)
Financing:			
Increase (decrease) in bank indebtedness		(385,000)	20,585,000
Issuance of Trust Units	10	95,000	95,000
Long-term debt repayments		–	(3,098,000)
Distributions to Unitholders		(10,813,000)	(8,381,000)
		(11,103,000)	9,201,000
Net increase (decrease) in cash during the year		287,000	(1,641,000)
Cash, beginning of year		2,315,000	3,956,000
Cash, end of year		$ 2,602,000	$ 2,315,000
Supplemental disclosure of cash flow information			
Interest paid		$ 1,204,000	$ 611,000

See accompanying notes to consolidated financial statements.

December 31, 2005 and 2004

1. **DESCRIPTION OF THE FUND**

Foremost Income Fund (the "Fund") is an unincorporated, open-ended unit trust established by a Deed of Trust under the laws of the Province of Alberta dated November 12, 2005. The Fund was created to effect a reorganization resulting in the indirect acquisition of the operations of Foremost Industries Income Fund.

On December 28, 2005, pursuant to both regulatory and Foremost Industries Income Fund Unitholder approval, the reorganization was completed whereby the Fund acquired all of the existing assets and business operations of the Foremost Industries Income Fund and its subsidiary entities. The reorganization resulted in the Unitholders' of the Foremost Industries Income Fund exchanging their units for units in the Foremost Income Fund on a one for one basis. The reorganization has been accounted for using carrying values.

The Fund's business operations are conducted through two limited partnerships; Foremost Industries LP ("Foremost") and Foremost Universal LP ("Universal"). Foremost designs and fabricates drilling equipment, heavy all-terrain vehicles and related parts and tooling. Universal designs and fabricates oil and gas treating equipment, including pressure vessels, petroleum storage tanks, gas separation equipment and large scale steam generators.

The Fund has an obligation under the Declaration of Trust, to distribute all of its taxable income and realized capital gains to the Common Trust Unitholders ("Unitholders") of record as at the fourth quarter distribution record date in December of each fiscal year. Distribution of this taxable income can be in the form of cash or through the issuance of additional common trust units ("Trust Units"). Under the terms of the Declaration of Trust, if taxable income is distributed in the form of additional Trust Units, there will be an immediate reconsolidation of the number of Trust Units outstanding. After the consolidation, each Unitholder will hold the same number of Trust Units as held before the distribution of additional Trust Units.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The amounts for inventory, specifically work in progress, require estimates as to the percentage of completion. The amounts recorded for amortization are based on an estimate of the useful lives of the property, plant and equipment, and intangible assets subject to amortization, and the amounts recorded for the warranty provision are determined based on historical information of warranty claims for similar products. The inventory obsolescence provision is based on estimates of the future saleability of specific inventory items, and the allowance for doubtful accounts of accounts receivable are determined based on a combination of specifically identified amounts, as well as historical collection trends. These estimates are based on management's best knowledge of current events and actions that the Fund may undertake in the future. Actual results could differ from those estimates.

a] **Principles of consolidation**

The consolidated financial statements include the accounts of the Fund, its partnerships and their wholly owned subsidiaries. All intercompany transactions have been eliminated.

b] **Inventories**

Manufacturing materials and repair parts are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Work in progress includes material, labour and manufacturing overhead.

c] **Property, plant and equipment**

Property, plant and equipment are stated at cost. Amortization of buildings, machinery and equipment is calculated at various rates ranging from 3 to 25 years on a straight line basis according to their useful life assuming a residual value of 5 percent of the original cost.

d] **Intangible assets**

Intangible assets, consisting of patent rights, licensing and non-compete agreements are recorded at cost and are amortized at various rates ranging from 5 to 15 years on a straight line basis over their estimated useful lives. Patents are written down to fair value if a decline is considered other than temporary.

e] **Impairment of long-lived assets**

The Fund's long-lived assets consisting of property, plant, equipment and intangible assets are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell.

f] **Goodwill**

Goodwill represents the excess of the purchase price over the fair market value of the net identifiable assets acquired. The goodwill balance is not amortized, but is assessed for impairment annually or whenever events or changes in circumstances indicate possible impairment. The impairment test is based on management's best estimate of the fair value of the related segments compared to the carrying amounts of those segments. Any impairment in the value of goodwill is written off against income in the period the impairment is recognized.

g] **Product warranty provision**

Based on experience factors, the Fund provides for future warranty costs relating to its products at the time the products are sold. These amounts are included in accounts payable and accrued liabilities.

h] **Foreign currency translation**

Transactions involving foreign currencies have been translated at approximate exchange rates in effect at the transaction dates. The Fund's foreign subsidiaries are accounted for as integrated operations. Monetary items have been adjusted to reflect the year end rate of exchange while non-monetary items are translated at historical rates. Gains and losses arising on foreign currency transactions are charged to income.

i] **Revenue recognition**

Foremost recognizes capital equipment fabrication revenue using a percentage of completion method. Under this method, revenue and costs of goods sold are recognized in income at each period end, based on the costs incurred to period end as a percentage of total expected costs. All parts sales and tooling and pipe revenues are recognized on a point of sale basis.

j] **Trust Units based compensation plan**

The Fund accounts for the compensation expense for Trust Units options granted to employees, directors and trustees using the fair value method. Under this method, fair values determined using the Black-Scholes option pricing model are recognized over the vesting period (see Note 10d) with a corresponding increase to contributed surplus. Any consideration paid for Trust Units on exercise of Trust Units options is credited to Fund equity.

k] **Income taxes**

The Fund is an unincorporated, open-ended Unit Trust for income tax purposes. As such, the Fund is taxed on any Canadian taxable income not allocated to Unitholders. Under the terms of the Declaration of Trust, all Canadian taxable income of the Fund will be allocated to the Unitholders resulting in no Canadian tax expense to the Fund.

The Fund's corporate subsidiaries follow the liability method of accounting for income taxes. Under this method, the change in net future income tax assets or liabilities is charged to income.

Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These future income taxes are classified as current and long-term depending upon the classification of the balance sheet items to which they relate.

l] **Per trust unit amounts**

Basic earnings per Trust Unit, is calculated using the weighted average number of Trust Units outstanding during the period. Diluted earnings per Trust Unit, is calculated by using the treasury stock method.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2004 the Fund changed its accounting policy for revenue recognition of capital equipment fabrication. The purpose of this change was to ensure the consistent application of revenue recognition for all of the operating entities within the Fund. It is management's opinion that the percentage of completion method more appropriately matches revenues and costs of sales to the period in which activity occurs. Prior to this change, Foremost recognized such revenue on a completed contract basis whereby revenue and related profit were recognized at the time of substantial completion. As a result of this change, revenue for capital equipment fabrication is now uniformly recognized throughout the Fund's business units. It has been determined that revenues of prior periods would have increased by $2,519,000 and net income of $873,000. As a result of this accounting policy change, the Fund has adjusted Unitholders' equity as at January 1, 2004 to reflect the net income effect. Prior period financial statements have not been restated since the effect on specific prior periods could not be reasonably determined.

4. BUSINESS ACQUISITIONS

On July 15, 2005, the Fund acquired all of the issued and outstanding shares of Peace Land Fabricating and Supply Ltd.("Peace Land") for consideration of cash and contingent consideration based upon earnings results for a five year period. Peace Land manufactures small to large-sized single and double-wall petroleum storage tanks at its location in Hythe, Alberta.

On August 3, 2005, the Fund acquired all of the issued and outstanding shares of De-In Industries Ltd. ("De-In") for consideration of cash, issuance of 186,048 Trust Units of the Fund and contingent consideration based upon earnings results for a five year period. De-In manufactures small to large-sized single and double-wall petroleum storage tanks at its location in Debolt, Alberta.

On July 1, 2004, the Fund acquired the assets and business operations of Corlac Industries (1998) Ltd. ("Corlac") for total consideration of cash, issuance of 25,000 Trust Units of the Fund, the assumption of liabilities and a contingent consideration based upon a percentage of revenue of a particular product line. With facilities in Lloydminster and Nisku, Alberta, Corlac manufactures petroleum storage tanks, compressor packages and pressure vessels.

The results of these operations have been included in the Fund's accounts from each acquisition's purchase date. The acquisitions have been accounted for under the purchase method as follows:

	2005			2004
	Peace Land	**De-In**	**Total**	Corlac
Consideration				
Cash	**$ 1,510,000**	**$ 3,645,000**	**$ 5,155,000**	$ 14,555,000
Acquisition costs	**159,000**	**263,000**	**422,000**	439,000
Total cash	**1,669,000**	**3,908,000**	**5,577,000**	14,994,000
Trust Units	**–**	**2,344,000**	**2,344,000**	423,000
Total	**$ 1,669,000**	**$ 6,252,000**	**$ 7,921,000**	$ 15,417,000
Net assets acquired				
Current assets	**$ 1,968,000**	**$ 3,963,000**	**$ 5,931,000**	$ 11,008,000
Property, plant and equipment	**1,103,000**	**3,214,000**	**4,317,000**	5,489,000
Intangible assets	**–**	**–**	**–**	1,173,000
Goodwill	**305,000**	**3,005,000**	**3,310,000**	–
Current liabilities	**(1,616,000)**	**(3,523,000)**	**(5,139,000)**	(2,253,000)
Future income taxes	**(91,000)**	**(407,000)**	**(498,000)**	–
Total	**$ 1,669,000**	**$ 6,252,000**	**$ 7,921,000**	$ 15,417,000

5. **INVENTORIES**

	2005	2004
Raw materials and parts	**$ 24,939,000**	$ 20,738,000
Work in process	**18,863,000**	16,955,000
Finished goods	**5,671,000**	4,202,000
	$ 49,473,000	$ 41,895,000

6. **PROPERTY, PLANT AND EQUIPMENT**

	2005			2004		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Land	**$ 4,109,000**	**$ –**	**$ 4,109,000**	$ 3,861,000	$ –	$ 3,861,000
Buildings	**17,354,000**	**2,601,000**	**14,753,000**	13,780,000	2,054,000	11,726,000
Equipment	**17,879,000**	**9,402,000**	**8,477,000**	15,215,000	7,728,000	7,487,000
Rental assets	**2,516,000**	**1,266,000**	**1,250,000**	2,516,000	1,266,000	1,250,000
	$ 41,858,000	**$ 13,269,000**	**$ 28,589,000**	$ 35,372,000	$ 11,048,000	$ 24,324,000

7. **INTANGIBLE ASSETS**

	2005	2004
Patent rights and licensing costs	**$ 1,391,000**	$ 1,308,000
Non-compete agreement	**423,000**	423,000
	1,814,000	1,731,000
Less: accumulated amortization	**(191,000)**	(144,000)
Net book value	**$ 1,623,000**	$ 1,587,000

Certain of the patent rights relate to a specific product line acquired from Corlac. There remains a further contingent purchase price over the next two years, which is based upon the revenues generated from this specific product line. This contingent purchase price adjustment will be accounted for annually on a prospective basis. During the year, the Fund wrote-off the remaining $20,000 of unamortized cost of its licensing rights for the hydrocyclone technology.

8. **GOODWILL**

	2005	2004
Goodwill, beginning of year	**$ 5,809,000**	$ 5,425,000
Goodwill from business acquisitions (Note 4)	**3,310,000**	–
Contingent purchase price payments	**1,100,000**	384,000
Goodwill, end of year	**$ 10,219,000**	$ 5,809,000

As part of the acquisitions of Peace Land, De-In and Universal, the Fund has a contingent purchase price payment liability for up to a five year period which is based on the earnings results of particular business units. The current year purchase price adjustment is reflected above and has been included in accounts payable and accrued liabilities.

9. BANK INDEBTEDNESS

The Fund has a $50,000,000 (2004 - $25,000,000) credit facility with a major chartered bank. This credit facility consists of two portions; one is an operating loan at $25,000,000 bearing interest at prime; the other portion is a $25,000,000 revolving facility bearing interest at prime plus one-half percent. This facility is secured by a general security agreement and floating charge debenture in the amount of $75,000,000 covering all assets of the Fund. Under the terms of this facility, the Fund is permitted to make use of banker's acceptances to borrow at effective interest rates which are usually lower than those charged under the bank's lines of credit. The effective interest rate of the issued banker's acceptances at December 31, 2005 was 4.6%.

Bank indebtedness consists of the following:

	2005	2004
Cash	**$ (2,602,000)**	$ (2,315,000)
Operating loan	**–**	23,385,000
Banker's acceptances	**23,000,000**	–
Bank indebtedness	**$ 20,398,000**	$ 21,070,000

10. UNITHOLDERS' EQUITY

a] Authorized

The Fund is authorized to issue an unlimited number of Trust Units and an unlimited number of Special Voting Units.

b] Unit split

The Fund's Unitholders approved a unit split of its issued and outstanding Trust Units on a three-for-one basis at the Fund's Annual and Special Meeting of Unitholders on June 8, 2005. All Trust Units and per unit amounts have been restated to retroactively reflect the unit split.

c] Issued

	2005		2004	
	Number	**Stated value**	Number	Stated value
Unitholders' equity, beginning of year	**18,657,390**	**$ 49,715,000**	18,480,690	$ 36,293,000
Adjustment of Unitholders' equity (Note 3)	**–**	**–**	–	873,000
Trust Units issued on exercise of options	**73,000**	**95,000**	101,700	95,000
Trust Units issued on acquisition (Note 4)	**186,048**	**2,344,000**	75,000	423,000
Trust Units based compensation (Note 10e)	**–**	**196,000**	–	116,000
Distributions	**–**	**(10,813,000)**	–	(8,381,000)
Change in the year	**259,048**	**(8,178,000)**	176,700	(6,874,000)
Net income for the year	**–**	**27,979,000**	–	20,296,000
Unitholders' equity, end of year	**18,916,438**	**$ 69,516,000**	18,657,390	$ 49,715,000

Unitholders' equity consists of:		
Trust Units	**$ 31,255,000**	$ 28,765,000
Accumulated earnings	**70,188,000**	42,209,000
Accumulated distributions	**(32,238,000)**	(21,425,000)
Contributed surplus	**311,000**	166,000
	$ 69,516,000	$ 49,715,000

As a result of the reorganization of the Fund on December 28, 2005, the exchange by the Unitholders of the Units of Foremost Industries Income Fund for Units of Foremost Income Fund was completed for income tax purposes at fair market value. As a result, the aggregate Unitholder equity value of Foremost Income Fund is considered to be approximately $277 million for income tax purposes. However, for accounting purposes, the carrying value of equity value has been retained using the continuity of interests method as there was no change in economic ownership of the business of the Fund.

d] Trust Units based compensation plan

The Fund has reserved 968,000 Trust Units under the terms of its employee Trust Units Option Plan at December 31, 2005 (2004 - 780,000). The exercise price of each option equals the fair market value at the date of grant. Options vest at a rate of 20 percent, on each of the five anniversaries of the date of grant, and expire one year after the fifth anniversary.

A summary of the status of the plan and changes during the years then ended is presented below:

Trust Units Option Plan	2005			2004		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Trust Units options, beginning of year	**780,000**	**$**	**1.53**	867,300	$	1.42
Granted	**300,000**		**12.63**	15,000		4.12
Exercised	**(73,000)**		**2.23**	(101,700)		0.93
Expired	**(39,000)**		**2.23**	(600)		2.00
Trust Units options, end of year	**968,000**		**4.96**	780,000		1.53
Trust Units options exercisable, end of year	**440,000**	**$**	**0.91**	348,000	$	0.96

The following table summarizes information about the Trust Units options outstanding:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number of options	Weighted average remaining contractual life		Weighted average exercise price	Number of options		Weighted average exercise price
$ 0.50 - $ 2.00	315,000	0.5 years	$	0.56	306,000	$	0.56
$ 2.00 - $ 4.00	338,000	2.6 years	$	2.23	3,000	$	2.23
$ 4.00 - $10.00	15,000	3.4 years	$	4.12	131,000	$	4.12
$ 10.00 - $13.00	300,000	4.3 years	$	12.63	–	$	–
$ 0.50 - $ 13.00	968,000	2.2 years	$	4.59	440,000	$	1.63

e] Trust Units based compensation expense

During 2005, the Fund granted a total of 300,000 Trust Units options at a weighted average exercise price of $12.63 per Trust Units option to employees, officers, directors, and trustees. These options vest over a five year period. The fair value of the Trust Units options granted in 2005 was estimated to be $1,800,000 of which $134,000 was recorded as part of the compensation expense during 2005, with an equal amount credited to contributed surplus. The weighted average fair value per Trust Units option of $5.86 was calculated using the Black-Scholes model with the assumptions being a risk free rate of 3.5 percent, an expected option life of five years, a volatility of 74 percent, and a quarterly dividend rate of 4.5 percent.

During 2004, the Fund granted a total of 5,000 Trust Units options at an exercise price of $12.35 per Trust Units option to employees, officers, directors, and trustees.These options vest over a five year period. The fair value of the Trust Units options granted was estimated to be $18,000 of which $5,000 ($5,000 in 2004)was recorded as part of the compensation expense during 2005, with an equal amount credited to contributed surplus. The weighted average fair value per Trust Units option of $2.88 was calculated using the Black-Scholes model with the assumptions being a risk free rate of 3.5 percent, an expected option life of five years, a volatility of 67 percent, and a quarterly dividend rate of 10 percent.

Total Trust Units based compensation expense recognized in 2005 was $196,000 ($116,000 in 2004).

f] **Contributed surplus**

Charges and credits to contributed surplus are related to stock options and are as follows:

	2005	2004
Balance, beginning of year	$ 166,000	$ 50,000
Compensation expense	196,000	116,000
Options exercised	(51,000)	–
	$ 311,000	$ 166,000

11. EARNINGS PER TRUST UNIT

Earnings per trust unit has been calculated based on the weighted average number of Trust Units outstanding. A reconciliation of the denominators used in the per trust unit calculation is outlined below:

	2005	2004
Basic weighted average Trust Units	$ 18,773,763	$ 18,612,375
Effect of dilutive Trust Units options	565,601	665,472
Diluted weighted average Trust Units	$ 19,339,364	$ 19,277,847

12. INCOME TAXES

Under the terms of the Declaration of Trust, all Canadian taxable income will be allocated to Unitholders.

The components of the net future income tax liability are as follows:

	2005	2004
Future income tax liability		
Property, plant and equipment	$ 498,000	$ –
Future income tax assets		
Canadian loss carryforwards	–	116,000
Property, plant and equipment	240,000	275,000
U.S. loss carryforwards	4,600,000	5,100,000
Valuation allowance	(4,840,000)	(5,491,000)
Totals	$ 498,000	$ –

During 2005 the corporate subsidiaries of the Fund had taxable income of approximately $1,000,000 (2004 - $685,000), and a computed future income tax expense of approximately $400,000 (2004 - $240,000) which was offset by a corresponding reduction in the valuation allowance.

Foremost, through one of its U.S. subsidiaries, has significant U.S. non-capital loss carryforwards. During 2005, one of its U.S. subsidiaries had taxable income of $745,000 (2004 - $685,000) which was offset by utilization of non-capital loss carryforwards. The U.S. subsidiary has approximately $11.5 million (2004 - $12.6 million) of non-capital loss carryforwards which may be applied against future taxable income. These losses expire in varying amounts from 2011 to 2023. No tax benefits have been recorded for these losses as their utilization is uncertain.

13. CONTINGENT LIABILITIES

The Fund is involved in various legal claims arising in the ordinary course of business. It is management's opinion that these claims, once settled, are not expected to materially affect the Fund's financial position. Any costs to the Fund arising from these claims will be charged to earnings in the year in which they occur.

14. STATEMENTS OF CASH FLOW

The change in non-cash working capital is comprised of:

	2005	2004
Increase in accounts receivable	**$ (11,868,000)**	$ (11,547,000)
Increase in inventories	**(4,383,000)**	(20,150,000)
Increase (decrease) in accounts payable and accrued liabilities	**(3,853,000)**	8,847,000
Increase in customer contract deposits	**9,979,000**	7,325,000
Decrease in non-cash working capital	**$ (10,125,000)**	$ (15,525,000)

15. FINANCIAL INSTRUMENTS

a] Fair values

For accounts receivable, accounts payable and accrued liabilities, and customer contract deposits, the carrying amounts approximate fair value due to the near term maturity of these financial instruments. Bank indebtedness, including banker's acceptances, approximates fair market value due to the short term maturity of these instruments.

b] Credit risk

A substantial portion of the Fund's accounts receivable is with customers in the oil and gas industry and is subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers. In addition, appropriate export insurance and confirmed letters of credit are obtained on all material international projects.

c] Foreign currency risk

A significant portion of the Fund's revenues, expenses, accounts receivable and accounts payable are denominated in U.S. dollars, and consequently the Fund is subject to the risk of fluctuating exchange rates.

d] Interest rate risk

The Fund's bank borrowings are subject to floating interest rates. This floating rate debt is subject to interest rate risk, as the required cash flow to service the debt will fluctuate as a result of changes in market rates.

16. RELATED PARTY TRANSACTIONS

The Fund utilized the consulting services of a company owned and managed by a trustee of the Fund in the normal course of operations. The consideration for these services amounted to $945,000 for 2005 (2004 - $746,000). The balance owing as December 31, 2005 was $436,000 (2004 - $345,000). Due diligence and business acquisition services are also utilized from the same company as the need arises. Any such costs are capitalized as part of the overall consideration for the acquired business. Business acquisition costs for De-In Industries Ltd. and Peace Land Fabricating and Supply Ltd. in the amount of $400,000 were paid to the company during 2005 (2004 – $350,000 for Corlac). These transactions were measured at amounts agreed to by all parties.

17. BUSINESS SEGMENTS

(000s)	Foremost		Universal		Total	
	2005	2004	**2005**	2004	**2005**	2004
Revenue	**$ 63,617**	$ 62,722	**$ 143,887**	$ 98,030	**$ 207,504**	$ 160,752
Interest expense (income)	**(126)**	(191)	**1,330**	946	**1,204**	755
Amortization	**724**	741	**1,925**	1,364	**2,649**	2,105
Net income	**5,367**	9,981	**22,612**	10,315	**27,979**	20,296
Property, plant and equipment	**7,042**	6,671	**21,547**	17,653	**28,589**	24,324
Intangible assets	**–**	–	**1,623**	1,587	**1,623**	1,587
Goodwill	**–**	–	**10,219**	5,809	**10,219**	5,809
Total assets	**34,962**	28,835	**105,569**	79,205	**140,531**	108,040
Property, plant and equipment expenditures	**1,119**	433	**1,429**	1,479	**2,548**	1,912

The Fund has two reportable segments: Foremost and Universal. The Foremost segment designs and fabricates drilling equipment, heavy all-terrain vehicles and related parts and tooling for the oil and gas, mining, waterwell and construction industries. The Universal segment designs and fabricates oil and gas treating equipment, including pressure vessels, petroleum storage tanks and large scale steam generators.

Universal's results are shown net of inter-segment sales (2005 - $19.7 million, 2004 - $11.6 million). In 2005, Foremost had $8.9 million of revenue to one customer (2004 - $18.1 million).

18. GEOGRAPHIC SEGMENTS

	Revenue		Property, plant and equipment, goodwill and intangibles	
	2005	2004	**2005**	2004
Canada	**$180,960,000**	$ 134,721,000	**$ 39,760,000**	$ 31,065,000
United States	**19,753,000**	19,004,000	**659,000**	642,000
International	**6,791,000**	7,027,000	**12,000**	13,000
Total	**$207,504,000**	$ 160,752,000	**$ 40,431,000**	$ 31,720,000

Revenues for geographic segments are allocated based upon the location of the customer's permanent establishment. Property, plant and equipment, goodwill and intangibles are allocated to the respective geographic segments using the geographic location of each operating business.

19. COMMITMENTS

Both of the Fund's business segments have initiated capacity expansion programs. As at December 31, 2005, there were specific commitments for capital expenditures in the amount of $708,000.

FOREMOST INCOME FUND (formerly Foremost Industries Income Fund)

STOCK EXCHANGE LISTING
The Toronto Stock Exchange (TSX)
Symbol: FMO.UN

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